VZCZCXRO6411
PP RUEHAG RUEHROV
DE RUEHDL #0886/01 3411407
ZNY CCCCC ZZH
P 071407Z DEC 07
FM AMEMBASSY DUBLIN
TO RUEHC/SECSTATE WASHDC PRIORITY 8761
INFO RUEHBL/AMCONSUL BELFAST PRIORITY 0648
RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RUEHBS/USEU BRUSSELS PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 DUBLIN 000886

SIPDIS

SIPDIS

E.O. 12958: DECL: 12/06/2017
TAGS: ECON EFIN EI
SUBJECT: IRELAND'S 2008 BUDGET -- NOT AS DRACONIAN AS
EXPECTED

DUBLIN 00000886 001.2 OF 002

Classified By: POL/ECON Chief Ted Pierce. Reasons 1.4 (b/d).

¶1. (U) Summary. On December 5, Finance Minister Brian Cowen presented the government's 2008 budget to a packed Irish Parliament. Budget pundits had predicted a fairly austere budget, given the Irish economic slowdown -- they were wrong in their predictions. On the broad macro numbers, Cowen predicted that the economy will grow by around 3 percent in 2008 and that the government's finances will swing into a deficit position from its surplus in 2007. He surprised many by decreasing the stamp duty on housing and will tax more heavily vehicles that produce higher carbon emissions. Personal marginal tax rates remain unchanged but the enhancement or introduction of various tax credits means that low- and middle-income households benefit most. The government will allocate EURO 2.7 billion to upgrade the creaking transport infrastructure, with the bulk going to fix the country's roads. The government's spending on health care will increase -- notably for improved cancer services -- but so will fees to the users of the country's hospitals and physicians. End Summary.

The Government Finances

¶2. (U) Cowen forecasted economic growth to run at about 3 percent in 2008, down from 4.75 percent in 2007. In addition, the government will need to borrow EURO 1.85 billion in order to finance expenditures, a deficit of 0.9 percent of GDP. This compares to a surplus in 2007 of EURO 900 million (0.5 percent of GDP). As a result of the deficit, the national debt will rise from 25 to 26 percent of GDP. Cowen indicated that the "move into deficit must involve productive borrowing, borrowing which will strengthen our economy for the long term."

¶3. (SBU) Comment: While slower, the forecasted growth rate is still healthy when compared to Ireland's peers in the EU. The deficit and debt numbers, too, appear manageable. The obvious big downside worry, and the one hinted at by Cowen, is the risk of a sharper than expected global slowdown. End Comment.

Stamp Tax Surprise

¶4. (U) Following much public pressure, Cowen relented and agreed to simplify and make less onerous the stamp duty on residential property (the tax paid by home buyers upon purchase of a house and levied in lieu of property taxes). The first EURO 125,000 of the purchase price of the home will now be exempt from the tax with the rest of the price up to EURO 1 million taxed at 7 percent. Above this, the tax rate

climbs to 9 percent.

¶5. (SBU) Comment: Over the past two years construction has taken over from exports as Ireland's economic growth engine. In recent months housing starts are down and house prices have leveled off and are beginning to fall. Given that real estate is a significant store of wealth for many Irish, Cowen came under considerable pressure to do something to turn the housing market around. The stamp duty reform combined with an increase in relief for mortgage interest for first time buyers is his effort to do just that. End Comment.

Low- and Middle-Income Earners Benefit

¶6. (U) The government will increase the personal tax credit, employee tax credit, and standard rate tax bands by about four percent in order to keep up with wage inflation. In addition, there will be an increase in other credits, including the child benefit payment and the home-care payment. As well, people who receive welfare payments will see them rise by six to seven percent. As described in the press, "single income married couples who earn about EURO 45,000, qualify for first-time buyer mortgage interest relief and the home carer's tax credit" will be the households that benefit most from this budget.

¶7. (C) Comment: With a slowdown in the economy and the high cost of living in Ireland, Cowen was under pressure to deliver some relief to the "man on the street" -- or at least not give out "favors" to the rich. He appears to have done enough for enough people to prevent any serious political repercussions to his party (Fianna Fail) or himself (he is thought to be the leading contender to become the next Prime Minister). End Comment.

Going Green

¶8. (U) While a carbon tax was not included in the budget, Cowen said that the government would put together a body to examine the issue and that it would be introduced "in the lifetime of this government." However, beginning in July 2008, the government will calculate the vehicle registration tax based on the carbon dioxide emissions of the car rather than engine size. Also, the motor tax rate on cars with engines bigger than 2.5 liters will be higher than on cars will smaller engines.

¶9. (C) Comment: The fact that there are two Green Party Ministers in the government for the first time and that Ireland is far from meeting its Kyoto commitments almost guaranteed that there would be some green-friendly measures in the budget. Of course, many NGOs are complaining that this budget does not go far enough to lower emissions. They may or may not be right, but the commitment to enact a carbon tax in the next several years will undoubtedly hearten many. End Comment.

Funding Transport Infrastructure

¶10. (U) Cowen's budget allocates EURO 2.7 billion to upgrade the country's transportation infrastructure, with EURO 1.7 billion going to roads. The Minister said that the road money would enable Ireland to build high-class roads "which are absolutely integral to economic activity and long-term economic and social prosperity." Another EURO 1 billion will be spent on public transport projects, including new rail routes between Irish population centers.

¶11. (C) Comment: Ireland's rapid economic development over the last decade has not been matched by the development of the transport infrastructure (as anyone who's been stuck in

Dublin traffic can plainly see). The government must improve this sector of the economy in order to cement the gains made elsewhere. Given the funds committed this year, it looks as if Cowen and his colleagues at the Ministry of Finance recognize this reality. That said, fixing the problem is a multi-year project. End Comment.

Health: More for Cancer Services

¶12. (U) The total health budget will be EURO 16.1 billion, about EURO 400 million over what was discussed in earlier estimates. Some of that extra funding will go to improve cancer services by focusing on eight "centers of excellence." However, the cost of semi-private and private beds in public hospitals will rise by 10 percent, among other cost increases.

¶13. (C) Comment: The increase in funding for cancer services drew the most media attention in the health portion of the budget. Minister for Health Mary Harney has been under fire due to the misdiagnosis of several women who were originally told they tested negative for breast cancer but were later told they had the disease. It is too soon to tell whether the extra funding will have an impact on the ability of the opposition to continue attacking Harney on the matter. End Comment.
FOLEY